



MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT



THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.

– Article IV, Section 53 of the Michigan Constitution

Audit report information can be accessed at:

<http://audgen.michigan.gov>



Michigan
Office of the Auditor General
REPORT SUMMARY

Performance Audit

*Fee Adequacy Within the Air Quality
Division*

Department of Environmental Quality

Report Number:
761-0143-07

Released:
October 2007

Title V of the Clean Air Act set up a comprehensive Renewable Operating Permit (ROP) Program that all states were required to implement. Title V of the Clean Air Act requires the ROP Program to collect, in the aggregate, an amount not less than \$25 per ton of each regulated pollutant or such other amount determined to adequately reflect the reasonable costs of the ROP Program. Section 324.5522(3) of the Michigan Compiled Laws states that the Auditor General shall conduct a biennial audit of the federally mandated operating permit program required in Title V of the Clean Air Act.

Audit Objective:

To assess the effectiveness of the Air Quality Division's (AQD's) process to properly allocate expenditures to the ROP Program.

Audit Conclusion:

We concluded that AQD's process to properly allocate expenditures to the ROP Program was effective. Our audit report does not include any reportable conditions related to this objective.

~ ~ ~ ~ ~

Background:

Act 451, P.A. 1994 (Section 324.5522(2) of the *Michigan Compiled Laws*), established the State's ROP Program fee schedule. The fees in Section 324.5522(2) of the *Michigan Compiled Laws* expired as of September 30, 2007. Act 75, P.A. 2007, which became effective October 1, 2007, extended the fee schedule presented within Section 324.5522(2) of the *Michigan Compiled Laws* until October 1, 2011.

Audit Objective:

To assess the sufficiency of the statutory fees for the ROP Program to meet the minimum requirements of the Clean Air Act as specified in Section 324.5522(3) of the *Michigan Compiled Laws*.

Audit Conclusion:

We concluded that the statutory fees (including unexpended fees carried forward from prior years) for the ROP Program were sufficient to meet the minimum requirements of the Clean Air Act as specified in Section 324.5522(3) of the *Michigan Compiled Laws*. Section 324.5521(2) of the *Michigan Compiled Laws* allows fees from the ROP Program to carry forward to subsequent years and not lapse to the State General Fund. Although expenditures exceeded fee revenues for the ROP Program for fiscal years 2004-05 and 2005-06, fees carried over from prior years were sufficient to cover expenditures. However, we noted one reportable condition (Finding 1).

~ ~ ~ ~ ~

Reportable Condition:

ROP Program fees did not generate sufficient revenues nor did AOD reduce ROP Program activities to ensure that ROP Program costs did not exceed revenues for fiscal years 2004-05 and 2005-06. Also, fees charged to entities are not projected to generate sufficient revenues to cover ROP Program costs for fiscal year 2006-07. (Finding 1)

~ ~ ~ ~ ~

Agency Response:

Our audit report contains 1 finding and 1 corresponding recommendation. The Department of Environmental Quality's preliminary response indicates that it partially agrees with the recommendation.

~ ~ ~ ~ ~

A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: <http://audgen.michigan.gov>



Michigan Office of the Auditor General
201 N. Washington Square
Lansing, Michigan 48913

Thomas H. McTavish, C.P.A.
Auditor General

Scott M. Strong, C.P.A., C.I.A.
Deputy Auditor General



STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
FAX (517) 334-8079

THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

October 23, 2007

Mr. Steven E. Chester, Director
Department of Environmental Quality
Constitution Hall
Lansing, Michigan

Dear Mr. Chester:

This is our report on the performance audit of Fee Adequacy Within the Air Quality Division, Department of Environmental Quality.

This report is issued pursuant to Section 324.5522(3) of the *Michigan Compiled Laws*, which states that the Auditor General shall conduct a biennial audit of the federally mandated operating permit program required in Title V of the Clean Air Act. The audit shall include the Auditor General's recommendation regarding the sufficiency of the fees to meet the minimum requirements of the Clean Air Act.

This report contains our report summary; description of program; audit objectives, scope, and methodology and agency responses and prior audit follow-up; comments, finding, recommendation, and agency preliminary response; three exhibits, presented as supplemental information; and a glossary of acronyms and terms.

Our comments, findings, and recommendations are organized by audit objective. The agency preliminary response was taken from the agency's response subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

TABLE OF CONTENTS

FEE ADEQUACY WITHIN THE AIR QUALITY DIVISION DEPARTMENT OF ENVIRONMENTAL QUALITY

	<u>Page</u>
INTRODUCTION	
Report Summary	1
Report Letter	3
Description of Program	6
Audit Objectives, Scope, and Methodology and Agency Responses and Prior Audit Follow-Up	9
COMMENTS, FINDING, RECOMMENDATION, AND AGENCY PRELIMINARY RESPONSE	
Expenditure Allocation	12
Fee Adequacy	12
1. ROP Program Fees and Costs	14
SUPPLEMENTAL INFORMATION	
Exhibit 1 - Mandated and Proposed Fee Schedules	19
Exhibit 2 - Title V Revenues and Expenditures	20
Exhibit 3 - Fees in Michigan and Surrounding States	21
GLOSSARY	
Glossary of Acronyms and Terms	23

Description of Program

In 1990, the U.S. Congress amended the Clean Air Act to include several new approaches to protecting air quality. Title V of the Clean Air Act set up a comprehensive Renewable Operating Permit (ROP) Program that all states were required to implement. This Program required businesses and institutions to obtain an ROP that consolidated all applicable requirements into a facility-based permit which must be renewed every five years.

The ROP Program initiated three significant changes to the existing permitting program:

1. The ROP Program consolidated the requirements that apply to a facility or source* that emits air contaminants. The ROP Program was not designed to impose any new emission limitations or standards but rather to bring the standards together into a single document.
2. The ROP Program shifted the burden of proof away from state and local regulatory agencies and placed it upon the individual sources of air pollutant emissions. Sources are required to annually report to the Department of Environmental Quality's Air Quality Division actual levels of emissions, which are used to calculate the fee paid by a source for the ROP Program. In addition, the source must certify that all the monitoring and associated recordkeeping requirements in its permit have been met and certify whether the source was in compliance with all the terms and conditions in the ROP for the previous year.
3. The ROP Program established an annual fee system designed to ensure that the state and local regulatory agencies will have the resources necessary to develop and administer the ROP Program.

Only facilities that meet the definition of a major source* of emissions must obtain an ROP. Major sources include:

- (1) Sources subject to the federal acid rain program.

* See glossary at end of report for definition.

- (2) Any stationary source in a source category as designated by the U.S. Environmental Protection Agency in Title 40, Part 70 of the *Code of Federal Regulations*.
- (3) Sources that have a potential to emit* (PTE):
 - (a) Greater than 100 tons per year of any pollutant regulated by the Clean Air Act, or
 - (b) Greater than 10 tons per year of any single hazardous air pollutant (HAP) or 25 tons per year of a combination of HAPs.

Thresholds considered in determining whether a facility is a major source are based on the facility's PTE, adjacent and contiguous properties, common control of a facility, and standard industrial classification codes*.

Fees are assessed for facilities based on the following categories (see Exhibit 1):

Category I

Facilities that have a PTE that exceeds the 100 tons per year for non-HAPs or are subject to the federal acid rain program. This category includes municipal electric generating facilities.

Category II

Facilities that exceed the 10 tons per year of any single HAP or 25 tons per year of a combination of HAPs.

Category III

Area source facilities that have a PTE below the emission thresholds for major sources (for example, dry cleaners).

Emission fees apply to a maximum of 4,000 tons of pollutants per facility or 1,000 tons per pollutant, not including carbon monoxide, if the combined total for the facility is less than 4,000 tons.

* See glossary at end of report for definition.

For fiscal year 2004-05, the ROP Program had operating revenues of \$11.41 million and expenditures of \$12.41 million (see Exhibit 2). As of September 30, 2005, the ROP Program had 126 full-time equivalent employees devoted to its activities. For fiscal year 2005-06, the ROP Program had operating revenues of \$11.60 million and expenditures of \$12.95 million (see Exhibit 2). As of September 30, 2006, the ROP Program had 119 full-time equivalent employees devoted to its activities.

Audit Objectives, Scope, and Methodology and Agency Responses and Prior Audit Follow-Up

Audit Objectives

Our performance audit* of Fee Adequacy Within the Air Quality Division (AQD), Department of Environmental Quality (DEQ), had the following audit objectives:

1. To assess the effectiveness of AQD's process to properly allocate expenditures to the Renewable Operating Permit (ROP) Program.
2. To assess the sufficiency of the statutory fees for the ROP Program to meet the minimum requirements of the Clean Air Act as specified in Section 324.5522(3) of the *Michigan Compiled Laws*.

Audit Scope

Our audit scope was to examine the program and other records related to the Air Quality Division and the Renewable Operating Permit Program. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances. Our audit procedures, conducted from April through June 2007, included examination of records and activities primarily for the period October 1, 2004 through March 31, 2007.

Audit Methodology

We conducted a preliminary review to gain an understanding of ROP Program activities. This review included interviewing AQD staff and reviewing applicable State statutes, administrative rules, policies and procedures, federal regulations, a draft internal DEQ audit report on the fee development process, and ROP Program records. Also, we reviewed AQD financial records, including cost projections, workload analysis reports, and program fees charged by neighboring states (see Exhibit 3).

To accomplish our first objective, we interviewed AQD staff to determine how costs are allocated to the ROP Program, traced labor hours to an electronic timekeeping system,

* See glossary at end of report for definition.

reviewed nonlabor expenditure transactions to determine if AQD appropriately distributed costs to the ROP Program, and analyzed how Department of Civil Service and Department of Information Technology charges were allocated to the ROP Program. We also reviewed how AQD allocated departmental indirect costs to the ROP Program.

To accomplish our second objective, we interviewed ROP Program personnel; reviewed financial records; analyzed AQD projections of ROP Program staffing needs, revenues, and expenditures for fiscal years 2006-07 and 2007-08; and examined AQD's last two legislative requests to increase statutory fees (see Exhibit 1).

Agency Responses and Prior Audit Follow-Up

Our audit report contains 1 finding and 1 corresponding recommendation. DEQ's preliminary response indicates that it partially agrees with the recommendation.

The agency preliminary response that follows the recommendation in our report was taken from the agency's written comments and oral discussion subsequent to our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and Department of Management and Budget Administrative Guide procedure 1280.02 require DEQ to develop a formal response to our audit finding and recommendation within 60 days after release of the audit report.

We released our prior performance audit of Fee Adequacy and Delegated Authority Within the Air Quality Division, Department of Environmental Quality (76-143-03), in October 2003. The prior audit did not include any recommendations.

COMMENTS, FINDING, RECOMMENDATION,
AND AGENCY PRELIMINARY RESPONSE

EXPENDITURE ALLOCATION

COMMENT

Background: The Air Quality Division (AQD) allocates labor expenditures to the Renewable Operating Permit (ROP) Program based on actual staff hours and costs authorized and approved for the ROP Program. For fiscal year 2005-06, 85.9% of ROP Program expenditures were labor and related travel costs. For fiscal years 2005-06 and 2006-07, nonlabor expenditures were allocated based on actual costs or a predetermined percentage of the ROP Program's prior fiscal year payroll expenditures. Also, the Department of Civil Service charges the ROP Program 1% of the ROP Program's prior fiscal year payroll expenditures to finance that department's operation.

Audit Objective: To assess the effectiveness of AQD's process to properly allocate expenditures to the ROP Program.

Conclusion: We concluded that AQD's process to properly allocate expenditures to the ROP Program was effective. Our audit report does not include any reportable conditions* related to this objective.

FEE ADEQUACY

COMMENT

Background: Section 502(b)(3)(A) of Title V of the Clean Air Act directs the State permit program to require owners or operators who obtain a permit under this title to pay an annual fee, or the equivalent, sufficient to cover all reasonable (direct and indirect) costs required to develop and administer the permit program.

Act 451, P.A. 1994 (Sections 324.5501 - 324.5542 of the *Michigan Compiled Laws*), established the State's ROP Program. Section 324.5522(1) of the *Michigan Compiled Laws* allows the Department of Environmental Quality (DEQ) to levy and collect an annual air quality fee from the owner or operator of each fee-subject facility in the State and indicates that the Legislature intended that the fees required under this section meet the minimum requirements of the Clean Air Act. Act 451, P.A. 1994 (Section 324.5522(2) of the *Michigan Compiled Laws*), established the State's ROP

* See glossary at end of report for definition.

Program fee schedule. The fees in Section 324.5522(2) of the *Michigan Compiled Laws* expired as of September 30, 2007. Act 75, P.A. 2007, which became effective October 1, 2007, extended the fee schedule presented within Section 324.5522(2) of the *Michigan Compiled Laws* until October 1, 2011.

This audit is mandated by Section 324.5522(3) of the *Michigan Compiled Laws*, which requires that the Auditor General conduct a biennial audit of the federally mandated operating permit program required by Title V of the Clean Air Act, including a recommendation regarding the sufficiency of the fees to meet the minimum requirements of Title V of the Clean Air Act.

Title V of the Clean Air Act requires the ROP Program to collect, in the aggregate, an amount not less than \$25 per ton of each regulated pollutant or such other amount determined to adequately reflect the reasonable costs of the ROP Program. Title V of the Clean Air Act allows the fee to increase each year based on the percentage, if any, that the consumer price index for the most recent calendar year exceeds the consumer price index for 1989. Title V of the Clean Air Act limits the billable tons to 4,000 per year of any regulated pollutant. DEQ developed a flat fee-per-facility component and placed a cap on the billable regulated pollutants of 4,000 tons per facility (see Exhibit 1).

Audit Objective: To assess the sufficiency of the statutory fees for the ROP Program to meet the minimum requirements of the Clean Air Act as specified in Section 324.5522(3) of the *Michigan Compiled Laws*.

Conclusion: We concluded that the statutory fees (including unexpended fees carried forward from prior years) for the ROP Program were sufficient to meet the minimum requirements of the Clean Air Act as specified in Section 324.5522(3) of the *Michigan Compiled Laws*. Section 324.5521(2) of the *Michigan Compiled Laws* allows fees from the ROP Program to carry forward to subsequent years and not lapse to the State General Fund. Although expenditures exceeded fee revenues for the ROP Program for fiscal years 2004-05 and 2005-06, fees carried over from prior years were sufficient to cover expenditures. However, our audit disclosed one reportable condition related to ROP Program fees and costs (Finding 1).

FINDING

1. ROP Program Fees and Costs

ROP Program fees did not generate sufficient revenues nor did AQD reduce ROP Program activities to ensure that ROP Program costs did not exceed revenues for fiscal years 2004-05 and 2005-06. Also, fees charged to entities are not projected to generate sufficient revenues to cover ROP Program costs for fiscal year 2006-07. The ROP Program relied on its fund balance to cover excess expenditures for fiscal years 2004-05 and 2005-06 and planned to do the same in fiscal year 2006-07.

Title V of the Clean Air Act allows states to implement an annual fee system that provides state and local regulatory agencies with the resources necessary to develop and administer the ROP Program. Title 40, Part 70 of the *Code of Federal Regulations (CFR)* requires states to establish a fee schedule that results in the collection and retention of revenues sufficient to cover the permit program costs. Section 324.5522 of the *Michigan Compiled Laws* contains the State's ROP fee schedule (see Exhibit 1) and requires that the fees under this section meet the minimum requirements of Title V of the Clean Air Act. ROP Program fees generated 97.7% and 97.4% of the ROP Program revenues for fiscal years 2004-05 and 2005-06, respectively.

AQD must obtain legislative approval to increase ROP Program fees. AQD submitted an ROP Program fee increase proposal to the State Legislature in May 2005 and forwarded draft fee recommendations to legislators in January 2007. Legislators last amended the ROP Program fee schedule in 2001. The fee schedule in Section 324.5522 of the *Michigan Compiled Laws* expired as of September 30, 2007.

Our review of AQD's ROP Program fees, revenues, expenditures, and projections disclosed:

- a. ROP Program expenditures exceeded revenues by \$1.00 million during fiscal year 2004-05 and by \$1.35 million during fiscal year 2005-06 (see Exhibit 2). AQD used the ROP Program's fund balance to cover the excess expenditures.
- b. Based on the level of services provided during fiscal year 2005-06, ROP Program fees and other funding methods are not projected to generate

sufficient revenues to cover costs for fiscal year 2006-07. AQD estimates that expenditures will exceed revenues by \$2.66 million during fiscal year 2006-07. AQD can use the ROP Program's fund balance of \$3.22 million (as of September 30, 2006) to cover those excess expenditures.

- c. Based on the level of services provided during fiscal year 2005-06, AQD estimated that expenditures will exceed revenues by \$5.18 million during fiscal year 2007-08 if the current fee structure is extended to future fiscal years. Based on this projection, AQD estimated that the ROP Program's fund balance will have a \$4.62 million deficit at the end of fiscal year 2007-08.
- d. AQD did not charge the ROP Program the established DEQ rates for indirect costs for fiscal year 2005-06. DEQ established indirect cost rates of 18.0% of prior fiscal year payroll expenditures for DEQ indirect costs and 7.0% of prior fiscal year payroll expenditures for Department of Information Technology (DIT) indirect costs. For fiscal year 2005-06, the ROP Program reported DEQ indirect costs of 8.0% and DIT indirect costs of 4.7% of prior year payroll expenditures. AQD staff stated that fee revenues did not provide sufficient revenues to cover the established allocated share of DEQ and DIT indirect costs without cutting required program activities. AQD staff also reported that they did not charge the established indirect cost rates to the ROP Program for fiscal year 2006-07.

The Clean Air Act requires that specific activities be completed by a state's ROP program. In an effort to control costs but not violate requirements of the Clean Air Act, AQD reported that it did not fill vacant positions related to the ROP Program; delayed purchasing computers and developing databases for the ROP Program; and analyzed ROP activities to identify activities that could be delayed or eliminated. As a result of these actions and AQD placing a higher priority on initial permit submittals, AQD was unable to complete ROP renewals and modifications on a timely basis. For fiscal year 2004-05, 15 (33.3%) of the 45 permit renewals and 27 (46.6%) of the 58 permit modifications were not completed in a timely manner. For fiscal year 2005-06, 19 (42.2%) of the 45 permit renewals and 53 (64.6%) of the 82 permit modifications were not completed in a timely manner. AQD staff have 18 months from the date of receipt to process a renewal and 90 days to 9 months to process modifications. Federal regulation 40 *CFR* 70 requires renewals and modifications to be completed on a timely basis.

RECOMMENDATION

We recommend that the ROP Program fees generate sufficient revenues and/or that AQD reduce ROP Program activities to ensure that ROP Program costs do not exceed revenues.

AGENCY PRELIMINARY RESPONSE

DEQ partially agrees with the finding and recommendation.

Funding for the ROP Program is the responsibility of the State Legislature and is established through a fee schedule to fund required activities under the federal Clean Air Act. This commitment was established as a prerequisite of the ROP Program being delegated from the U.S. Environmental Protection Agency (EPA) to the State of Michigan. DEQ is responsible for collecting the authorized fees in accordance with Section 324.5522 of *Michigan Compiled Laws* and implementing the ROP Program in accordance with the Clean Air Act. DEQ supports establishment of a fee system to generate sufficient revenues to meet the legal requirements of federal regulation 40 *CFR* 70.5522 and the Clean Air Act.

DEQ informed us that it established a work group with the regulated community to review the fee schedule for the ROP Program, including DEQ's recommendations to renew and increase the fees effective September 30, 2005. The fee schedule recommendations included adequate revenues to support the ROP Program in accordance with the requirements of the Clean Air Act. DEQ informed us that, in the context of the legislative deliberations on its fiscal year 2005-06 budget, the final agreement included legislative action to continue the established air emissions fee schedule through September 30, 2007 with no increases to fund the ROP Program at a level necessary to meet federal requirements. DEQ stated that, beginning October 1, 2005, it has used available fund balance to support staff in the program. DEQ also stated that, in order to manage within its available funding for the Program, it has not filled vacant positions in the ROP Program since October 1, 2005. Further, DEQ informed us that it has transferred several staff from the Program to other DEQ programs and funding sources. As a result, DEQ believes that, as of September 2007, staffing levels for this Program have declined to a level that may jeopardize the ability to meet the requirements of the Clean Air Act.

DEQ informed us that its fiscal year 2007-08 executive budget recommendations included a request to increase the air emissions fees to support adequate staffing levels to meet the requirements of the Clean Air Act. The Legislature did not approve the requested fee increases. The Legislature approved Act 75, P.A. 2007, which extends the current air emissions fees through October 1, 2011. DEQ informed us that by 2011, the existing air emissions fee schedule will have been in place for 10 years with no adjustments for increases in Program costs.

DEQ disagrees that the ROP Program activities can be reduced below current levels. As noted in the finding, DEQ has limited its activities related to the ROP Program in an effort to control costs. These limitations have resulted in DEQ being unable to complete ROP renewals and modifications on a timely basis, in violation of federal regulation 40 *CFR* 70. DEQ informed us that to further reduce ROP activities would significantly increase the likelihood that Michigan's ROP Program would be found deficient by the EPA and could jeopardize the Program's compliance status with the Clean Air Act.

DEQ informed us that, if it is found deficient, resultant EPA actions may include issuing an informal warning or publishing a formal Notice of Deficiency in the Federal Register and rescinding Michigan's delegated authority. DEQ also informed us that, if a Notice of Deficiency is published, additional ramifications to Michigan could include the withholding of federal highway funds in areas not meeting the National Ambient Air Quality Standards until the deficiency is rectified. In addition, DEQ informed us that, if Michigan's delegation is rescinded, the EPA would implement the ROP Program at the federal level, including assessing and collecting related fees. DEQ further informed us that fees collected by the EPA would be established using the EPA's cost basis, rather than Michigan's formula with caps for the largest facilities, likely resulting in a higher fee structure.

SUPPLEMENTAL INFORMATION

FEE ADEQUACY WITHIN THE AIR QUALITY DIVISION
Department of Environmental Quality
Mandated and Proposed Fee Schedules
As of June 30, 2007

	<u>Rates Per Section 324.5522 of the <i>Michigan Compiled Laws</i></u>	<u>2005 Proposal</u>	<u>2007 Draft Fee Recommendations</u>
Category I, II, and III Facilities:			
Category I facility fee	\$ 4,485	\$ 5,605	\$ 5,010
Category II facility fee	\$ 1,795	\$ 2,245	\$ 2,005
Category III facility fee	\$ 250	\$ 310	\$ 275
Fee per ton (applies to category I and II facilities)	\$ 45.25	\$41.00 - Fiscal year 2005-06 \$51.75 - Fiscal year 2006-07 \$63.55 - Fiscal year 2007-08	\$ 50.84
Dollar limit on total facility	None	None	\$ 411,730
Limit on individual pollutant (in tons)	1,000	1,000	2,000
Limit on total facility pollutants (in tons)	4,000	4,000	8,000
Municipal Electricity Generating Facilities:			
Emitting more than 450 tons but less than 4,000 tons	Flat annual fee - \$24,816	Category I facility fees	Category I facility fees
Emitting at least 4,000 tons but not more than 5,300 tons	Flat annual fee - \$24,816 plus \$45.25 per ton	Category I facility fees	Category I facility fees
Emitting more than 5,300 tons but not more than 12,000 tons	Flat annual fee - \$85,045	Category I facility fees	Category I facility fees
Emitting more than 12,000 tons but less than 18,000 tons	Flat annual fee - \$159,459	Category I facility fees	Category I facility fees
Sunset date	September 30, 2007	September 30, 2009	None
Maximum carry-forward	None stated	\$0 by fiscal year 2008-09	\$2,000,000
Adjusted by the consumer price index	No	No	Yes

Sources: *Michigan Compiled Laws* and Air Quality Division, Department of Environmental Quality.

FEE ADEQUACY WITHIN THE AIR QUALITY DIVISION
Department of Environmental Quality
Title V Revenues and Expenditures
For Fiscal Years 2001-02 through 2007-08

<u>Fiscal Year</u>	<u>Title V Revenues</u>	<u>Expenditures Charged to Title V Fees</u>	<u>Difference Between Revenues and Expenditures</u>	<u>Fund Balance</u>
2000-01				\$ 931,072
2001-02	\$ 11,896,979	\$ 8,980,679	\$ 2,916,300	\$ 3,847,372
2002-03	\$ 11,286,507	\$ 9,882,905	\$ 1,403,602	\$ 5,250,974
2003-04	\$ 11,159,282	\$ 10,845,926	\$ 313,355	\$ 5,564,330
2004-05	\$ 11,406,499	\$ 12,405,785	\$ (999,286)	\$ 4,565,044
2005-06	\$ 11,604,248	\$ 12,950,594	\$ (1,346,346)	\$ 3,218,698
2006-07 *	\$ 10,935,135	\$ 13,598,520	\$ (2,663,385)	\$ 555,313
2007-08 *	\$ 10,279,027	\$ 15,455,769	\$ (5,176,742)	\$ (4,621,429)

* Amounts for fiscal years 2006-07 and 2007-08 are estimates provided by the Air Quality Division.

Source: Air Quality Division, Department of Environmental Quality.

FEE ADEQUACY WITHIN THE AIR QUALITY DIVISION
 Department of Environmental Quality
 Fees in Michigan and Surrounding States
As of September 30, 2006

<u>State</u>	<u>Per Ton Emissions Fee</u>	<u>Facility Annual Fee</u>	<u>Limits on Ton Charges</u>	<u>Limits on Total Fees</u>	<u>Sunset Clause</u>
Michigan:					
Category I	\$ 45.25	\$ 4,485	4,000/facility	None	Yes
Category II	\$ 45.25	\$ 1,795	4,000/facility	None	Yes
Category III	\$ 0	\$ 250	None	None	Yes
Illinois	\$ 18.00	\$ 0	None	\$ 250,000	No
Indiana	\$ 41.25	\$ 1,875	None	\$ 187,500	No
Ohio	\$ 41.02	None	4,000/pollutant	None	No
Wisconsin	\$ 35.71	None	5,000/pollutant	None	No

Note: Facilities cannot install or modify their processes without first obtaining an approved new source review (NSR) permit*. In Michigan, NSR program activities related to Title V sources are covered by renewable operating permit (ROP) fees. In contrast, in other states, such as Illinois, Indiana, Ohio, and Wisconsin, significant additional fees are charged for NSR permits.

Sources: *Michigan Compiled Laws*, various states' Web sites, and Air Quality Division, Department of Environmental Quality.

* See glossary at end of report for definition.

GLOSSARY

Glossary of Acronyms and Terms

AQD	Air Quality Division.
<i>CFR</i>	<i>Code of Federal Regulations.</i>
DEQ	Department of Environmental Quality.
DIT	Department of Information Technology.
EPA	U.S. Environmental Protection Agency.
HAP	hazardous air pollutant.
major source	A source having the potential to emit more than 10 tons per year of a single HAP, 25 tons per year of a combination of HAPs, or 100 tons per year of any other pollutant regulated under the Clean Air Act.
new source review (NSR) permit	A permit to install that authorizes the construction, installation, relocation, or alteration of any process, fuel-burning, refuse-burning, or control equipment in accordance with approved plans and specifications.
performance audit	An economy and efficiency audit or a program audit that is designed to provide an independent assessment of the performance of a governmental entity, program, activity, or function to improve public accountability and to facilitate decision making by parties responsible for overseeing or initiating corrective action.
potential to emit (PTE)	The maximum capacity of a facility to emit any air pollutant under its physical and operational design. A facility may incorporate permit conditions to limit its PTE.

reportable condition	A matter that, in the auditor's judgment, represents either an opportunity for improvement or a significant deficiency in management's ability to operate a program in an effective and efficient manner.
ROP	renewable operating permit.
source	All of the processes and process equipment under common control that are located within a contiguous area or a smaller group of processes and process equipment as requested by the owner or operator of the source, if in accordance with the Clean Air Act.
standard industrial classification code	A standardized code system used to classify a business by the type of activity in which it is engaged.

